# FINANCIAL OPERATIONS OF OHIO FARMER OWNED ELEVATORS DURING THE FISCAL YEAR 1936-37

by

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in cooperation with

The Agricultural Extension Service

Mimeographed Bulletin No. 103

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Columbus, Ohio
October, 1937

# Foreword

The Department of Rural Economics of Ohio State University has issued each fall for several years past a bulletin summarizing the financial operations of the farmer owned elevators of the state for the preceding fiscal year. The following pages constitute the ninth number in this series, and give the data for the fiscal year 1936-37. While 50% to 60% of the companies have a fiscal year ending with December 31, the remainder of them end their year at various dates from February 28 to June 30, or November 1 to December 15, and we must take the data for whatever happens to be their fiscal year. Hence the reader should recognize that the data does not all fall in any twelve month period, but is a summary of the data for the last fiscal year of the respective companies.

The tables given below, in addition to comparative data from preceding years, are based on the following:

1. The main balance sheet and income and expense items from 150 companies, operating 190 plants.
2. Detailed analysis of expense items from 52 companies.
3. Commodity sales and margins from 38 companies.
4. Accounts receivable data from 20 companies.

In view of the influence of volume of business on expense ratios and on profits, we have from the beginning divided our companies into groups on the volume basis. Changes in price levels have forced us at times to move the dividing line, but the principle has been the same. In this bulletin the dividing line has been moved up $25,000 for Groups II, III, IV, and is as follows, the first four groups being composed of companies that operate only one plant each.

| | | |
|---|---|---|
| Group I | - | All companies under $75,000 in sales volume. |
| Group II | - | With volumes from $75,000 to $150,000 |
| Group III | - | With volumes from $150,000 to $225,000 |
| Group IV | - | With volumes above $225,000 |
| Group V | - | All companies operating more than one plant each. |

## Chapter I

## Introductory

How did the farmer elevators of Ohio fare in general during the past year?

For the year 1936-37, of the 150 companies in our records 145, or 96.6%, made net gains, while 5 companies mostly in Group I, suffered losses. The detail for the different groups is shown in Table I below.

Table I

Gains and Losses by Groups - Farmer Elevators of Ohio 1936-37

| Group | No. in Group | Showing Gains No. | Showing Gains Amount | Showing Losses No. | Showing Losses Amount | Net Gain of Group | Net Gain per Company |
|---|---|---|---|---|---|---|---|
| I | 14 | 10 | $ 18,743 | 4 | $ 7,042 | $ 11,701 | $ 836 |
| II | 32 | 31 | 138,786 | 1 | 450 | 138,336 | 4,323 |
| III | 40 | 40 | 248,640 | 0 | 0 | 248,640 | 6,216 |
| IV | 36 | 36 | 447,360 | 0 | 0 | 447,360 | 12,427 |
| V | 28 | 28 | 505,972 | 0 | 0 | 505,972 | 18,070 |
| All | 150 | 145 | 1,359,501 | 5 | 7,492 | 1,352,010 | 9,013 |

It should be remembered that many of each group "graduated" during the year into a higher group. E.g., if we add to Group I the companies which were last year in that group but now are in Group II, we find that the group advanced from $54,375 volume to $73,177 this year and from $581 average net gain per company to $2089.

Group V is made up of 28 companies operating 68 plants. On the volume per plant basis, three of these companies would fall in Group I, 8 in II, 6 in III, and 11 in IV, and the 68 had an average volume differing from the average of all plants by less than $1000.

How does the record for 1936-37 compare with that for preceding years?

Our first bulletin * gave the average gain per company as $3649 for the year 1928-29. During the next few years of declining price levels and declining volumes handled, net gain rapidly declined until it reached a low of $635 per company in 1931-32; 40% of the companies showed losses. Since 1931-32 every year has seen an advance in both volume and net gain,

* Bulletin No. 21, Financial Operations of the Farmer Owned Elevators of Ohio, 1928-29.

until in 1934-35 the net gain of $3875 per company had surpassed that of 1928-29. The next year volume also passed that of 1928-29 with net gain advancing to $4608. This past year 1936-37, has shown an average net gain of $9013 per company.

This larger net gain arose from several factors:

1. The increase in volume from $176,000 per company to $248,000, an increase of 41%.

2. On grains and other farm produce there was a generally advancing price level, which made easier the maintenance of fair trading margins at the same time that it was increasing values of inventory on hand. It is fair to note however that no disposition was evidenced to take unfair advantage of the advancing prices, as trading margins at 8.6¢ per dollar of sales were slightly less than in the year before.

3. The large volume also contributed to the lowest expense ratio ever experienced. Total expense was 6.1¢ per dollar of sales as compared with 7.3¢ the year before, in turn the lowest up to that time.

Table II presents the comparison over a period of years. One notes the rapid rise in expense per dollar of sales down to 1932 (due to declining dollar volumes). Every company made drastic reductions in expense, but none could cut expense so rapidly as volume fell. Then with rising volume in succeeding years, the expense while advancing steadily, has not advanced nearly so fast as volume. Hence the larger net gains.

Table II

Figures of Ohio Farmer Elevator Operations
Compared with U.S.D.A. Indices of Farmers' Prices
1929-1936

| | 1929 | 1931 | 1932 | 1933 | 1935 | 1936 |
|---|---|---|---|---|---|---|
| Farmers' Buying Price (1909-14 = 100) | 153 | 124 | 107 | 109 | 125 | 124 |
| Farmers' Selling Price (1909-14 = 100) | 146 | 87 | 65 | 70 | 108 | 114 |
| Volume in Thousands of Dollars | 170 | 108 | 83 | 102 | 176 | 248 |
| Gross Trading Margin (in dollars) | 13077 | 10386 | 9253 | 10088 | 15231 | 21286 |
| Total Expenses in per cent of Sales | 7.6 | 10.9 | 12.8 | 10.8 | 7.3 | 6.1 |
| Net Profit per company (in dollars) | 2991 | 1143 | 635 | 1698 | 4608 | 9013 |

And now how do farmer elevators of Ohio compare with business at large in the success of their operations?

For some years the National City Bank Magazine has in its April or May issue of each year given a summary of the financial operations of the preceding year for some 2000 of the largest corporations of this country with a net worth of some 25 billions of dollars. Beginning with 1932, the worst year experienced by the elevators of Ohio during the period of our records (1920-1 may have been worse), the record of net gains for the two groups in percentages of net worth are as follows:

| | Big Business | | Farmers Elevators | |
|---|---|---|---|---|
| 1932 | Loss | .4 of 1% | Gain | 1.75% |
| 1933 | Gain | 2.7% | " | 4.85% |
| 1934 | " | 4.5% | " | 10.3% |
| 1935 | " | 5.1% | " | 11.1% |
| 1936 | " | 7.4% | " | 20.7% |

Industrial and trading corporations which are more nearly comparable to elevators made in 1936 10.1% of net worth, about half the net gain ratio of the elevators.

We must again caution our readers against reading too much into such a comparison. One often heard when an occasional elevator or other cooperative failed during the 1930-33 period, "Cooperatives can't succeed; see what happens to them when hard times strike." But failures and losses were far from confined to cooperatives. The comparison above seems to show that the troubles of farmers' elevators in recent years are a part of the general economic situation, and that in such troublous times the cooperative elevators have shown themselves able to meet the problems confronting them at least as well as big concerns, presumably well capitalized and with highly paid managements. It is in this thought that the comparison is presented.

## Chapter II

### The Income of the Farmer Owned Elevators of Ohio, 1936-37

From where did these gains come? What are the principal sources of income?

The two tables below present a general answer to this question, the first of them giving total sales and total incomes from the major sources for the companies in each group and finally for the whole number in our study. Then Table IV gives the same data in averages per company in each group and a general average for the 150.

Table III

Total Sales of Ohio Farmer Elevators by Groups for 1936-37
with Total Receipts from each of the Major Sources

| Group | No. Companies | Sales | Trading Margin | Grinding Income | Other Income | Total Income |
|---|---|---|---|---|---|---|
| I | 14 | $ 754,986 | $ 85,963 | $ 16,506 | $ 4,983 | $ 107,452 |
| II | 32 | 3,516,000 | 363,460 | 41,951 | 18,851 | 424,262 |
| III | 40 | 7,240,478 | 674,746 | 76,406 | 25,445 | 776,597 |
| IV | 36 | 12,281,333 | 923,155 | 81,646 | 30,655 | 1,035,456 |
| V | 28 | 13,323,067 | 1,145,576 | 86,128 | 44,932 | 1,276,636 |
| Total | 150 | 37,115,864 | 3,192,900 | 302,637 | 124,866 | 3,620,403 |

Table IV

Sources of Income of Ohio Farmer Elevator Companies 1936-37
in Averages per Company for each Group

| Group | Sales per Company | Trading Margin | Grinding Income | Other Income | Total Income | What % of Total Income is from Trading Margins |
|---|---|---|---|---|---|---|
| I | $ 53,928 | $ 6,140 | $1,179 | $ 356 | $ 7,675 | 80.0 |
| II | 109,875 | 11,358 | 1,311 | 589 | 13,258 | 85.7 |
| III | 181,012 | 16,869 | 1,910 | 636 | 19,415 | 86.9 |
| IV | 340,593 | 25,643 | 2,268 | 852 | 28,763 | 89.1 |
| V | 475,823 | 40,913 | 3,076 | 1,605 | 45,594 | 89.7 |
| Av. | 247,439 | 21,286 | 2,018 | 832 | 24,136 | 88.2 |

Trading margin for the whole group (with nearly but not quite identical companies in succeeding years) has advanced steadily year by year since 1932, until in this past year the average per company was $21,280, the highest average in our records.

As to grinding income, in the early years of our study we found farmers feeding up more of their grain, and also grinding more of it to mix with concentrates, so a steady increase in grinding income appeared. Then came the traveling grinder which not only took part of the grinding, but forced lower rates in many areas, nor did the low prices for livestock, milk, eggs, encourage much feeding. The trend changed in 1935, and income from this source is on the way up, as the totals of grinding income for the various years show.

| | | | |
|---|---|---|---|
| 1930-31 | $342,000 | 1934-35 | $171,000 |
| 1931-32 | 284,000 | 1935-36 | 230,000 |
| 1932-33 | 234,000 | 1936-37 | 302,600 |
| 1933-34 | 190,000 | | |

But, as rural electrification advances over the state, will the increased number of grinders on farms soon start the trend the other way?

Other income is mostly from three sources, the interest received on notes or accounts receivable, U. S. or other bonds or time deposits; receipts from trucking; and dividends received from central sales organizations. Minor items are rents received, collections of accounts previously charged off and cash overages.

For a comparison of the incomes from various sources for the past several years, see Table V below which presents the totals for the whole number of companies in each year's study. The companies are identical to the number of about 140, with one to three changes in any two successive years.

Table V

Income of Farmer Owned Elevators for the Years 1933-1937
as Shown by the Totals for the Whole Number in each Year's Data

| | 1932-33 | 1933-34 | 1935-36 | 1936-37 |
|---|---|---|---|---|
| No. Companies | 146 | 149 | 150 | 150 |
| Sales | $12,282,453 | $15,240,373 | $26,363,825 | $37,115,864 |
| Trading Margin | 1,372,047 | 1,622,358 | 2,284,596 | 3,192,900 |
| Grinding Income | 234,206 | 190,227 | 230,058 | 302,637 |
| Other Income | 105,245 | 81,094 | 102,203 | 124,866 |
| Total Income | 1,711,498 | 1,893,679 | 2,616,857 | 3,620,403 |

What commodities contribute most of the trading margin income?

This varies with every company; it varies between any two sections of the state, especially between western and eastern Ohio; it varies with different years, as the district which ships 10 cars of wheat one year may ship 30 another year; it varies with weather conditions at harvest and resulting quality of grain. However, a fairly accurate picture can be gotten from Table VI below. From the audit summaries of 38 companies whose "commodity analyses" as we have them are fairly complete we get the data presented in the table below.

Table VI.

Commodity Sales and Trading Margin in Farmers' Elevators
as shown by Data from 38 Companies, 1936-37

| Commodity | Sales | Margin | Per cent of Margin | Margins in preceding yrs. 1935-6 | 1934-5 | 1933-4 |
|---|---|---|---|---|---|---|
| Wheat | $2,939,047 | $ 11,160 | 3.8 | 4.2 | 5.7 | 5.1 |
| Corn | 2,704,499 | 177,595 | 6.6 | 7.0 | 8.9 | 12.6 |
| Oats | 627,154 | 66,664 | 10.6 | 9.4 | 11.6 | 13.8 |
| Other Grains | 159,654 | 12,286 | 7.7 | 5.2 | 26.3 | 20.2 |
| All Grains | 6,430,354 | 267,705 | 4.2 | 5.5 | 7.4 | |
| | | | | | | |
| Soy Beans | 7,010 | 556 | 7.9 | 8.9 | | |
| Hay & Straw | 10,912 | 1,680 | 15.4 | 9.1 | 12.1 | 10.8 |
| Livestock | 898,885 | 9,182 | 1.0 | 2.0 | 1.0 | 1.5 |
| Total Sales of Farm Products | 7,347,161 | 279,123 | 3.8 | 5.2 | | |
| | | | | | | |
| Feed and Flour | 1,258,275 | 199,521 | 15.8 | 15.5 | 12.5 | 17.4 |
| Seed | 221,437 | 34,198 | 15.4 | 9.1 | 13.0 | 13.6 |
| Fertilizer | 267,185 | 33,193 | 12.4 | 12.5 | 12.5 | 11.1 |
| Coal | 547,261 | 92,854 | 17.0 | 19.0 | 18.8 | 17.6 |
| Bldg. Material | 107,274 | 20,333 | 18.9 | 21.8 | 25.5 | 23.6 |
| Farm Machinery | 97,154 | 16,160 | 16.6 | 19.2 | 22.9 | 14.3 |
| Hardware | 286,453 | 32,120 | 11.2 | 15.3 | | |
| Twine | 14,552 | 972 | 6.7 | 10.1 | 11.6 | |
| Fence and Posts | 65,671 | 10,306 | 15.7 | 12.3 | 12.1 | 15.6 |
| Gas and Oil | 148,297 | 20,832 | 14.0 | 14.4 | 16.5 | 15.8 |
| Lumber | 151,034 | 24,610 | 16.3 | 20.4 | | |
| Gen. Mdse. | 825,920 | 110,777 | 13.4 | 12.5 | 15.0 | 14.5 |
| | | | | | | |
| Total sales of Farm Supplies | 3,990,513 | 595,876 | 14.9 | 14.7 | 15.0 | |
| | | | | | | |
| Grand Total | 11,337,674 | 874,999 | 7.7 | 8.8 | | |

It was supposed that from the 38 companies whose figures are summarized in Table VI, constituting 25% of the companies and 30% of the volume represented in our study, we would get a picture typical of the general situation and we think that in the main it is. However the average trading margin of this group is 7.7% of sales, whereas the general average is 8.6%; further, the percentage which farm supplies constitute of the whole volume is somewhat lower than in most years. This may be due to 1936 being an unusually good grain year, or it may mean that this year's sample somewhat overemphasizes grain. Beyond this we think the figures fairly typical.

Further points to note are -

1. That many of the audits do not separate the business into so many departments as we have, so General Merchandise in the table includes for some companies seed, twine, building material or other items which in other companies appear under separate headings.

2. That elevators are steadily expanding into more merchandise and service lines. Numerous instances could be given of companies which in the past two years have added lumber, or machinery, or paint, or gasoline, or hardware, or several of them.

3. The larger margin on merchandise items (14.9%) than on grain (4.2%) is due to greater handling expense. Grain generally comes in in wagon or truck loads, and goes out in carloads or truckloads; merchandise items are handled in small units, often involve service in handling, in delivery and records, are often in stock longer and occasionally prove unsalable, and may involve losses on accounts. Part of the larger margin on oats and corn than on wheat is due to the many local sales for feed; i.e., they are in part merchandise items.

4. And finally we always present such a table as this with some misgivings. Competitive conditions temporarily affect trading margins on a particular commodity; weather influences may reduce margins (the low margin on wheat for 1935 is due to the wet wheat which some elevators handled at very little gain or even a loss); varying prices may catch a manager loaded up with a big stock on which he may lose or "make a killing"; - such are a few of the factors which may make any one of these ratios vary from normal. Where year after year a ratio is fairly uniform it must have considerable validity; e.g., fertilizer around 12%, coal seldom far from 18%, and merchandise in general about 15%.

## Chapter III

### Expenses of Farmer Owned Elevators of Ohio 1936-37

The first picture we present is the general relation of total expense to gross income for each group.

Table VII

Income and Expense of Ohio Farmer Owned Elevators 1936-37
Average per Company by Groups

| Group | No. in Group | Sales | Gross Income | Total Expense | Net Gain | Ratio* |
|---|---|---|---|---|---|---|
| I | 14 | $ 53,928 | $ 7,675 | $ 6,839 | $ 836 | 89.1 |
| II | 32 | 109,875 | 13,258 | 8,935 | 4,323 | 81.3 |
| III | 40 | 181,012 | 19,415 | 13,199 | 6,216 | 68.0 |
| IV | 36 | 340,593 | 28,763 | 16,336 | 12,427 | 56.8 |
| V | 28 | 475,823 | 45,594 | 27,524 | 18,070 | 60.4 |
| Averages | 150 | 247,439 | 24,136 | 15,123 | 9,013 | 62.6 |
| Per Plant | 190 | 195,348 | 19,055 | 11,939 | 7,116 | 62.6 |

* Per cent which Expense is of Gross Income

The share which total expense took of gross income is 10% lower than last year - a result of large volume, which does not increase expense to the same degree it increases income.

What are the principal items in elevator expense?

This question is answered in Table VIII as to major items by groups; Table IX shows more exactly the share which each of all the important items contributes to the expense dollar.

Table VIII

Major Expense Items - Farmer Elevator Companies 1936-37
Averages for 150 Companies

| Group | Average Sales | Interest | Depreciation | Bad Debts | Oper. Expense | Total Expense | Expense Ratios Oper. | Expense Ratios Tot. |
|---|---|---|---|---|---|---|---|---|
| I | $ 53,928 | $247 | $ 667 | $ 655 | $ 5,270 | $ 6,839 | 9.8 | 12.7 |
| II | 109,875 | 260 | 1,018 | 532 | 7,125 | 8,935 | 6.5 | 8.1 |
| III | 181,012 | 269 | 1,386 | 531 | 11,013 | 13,199 | 6.1 | 7.3 |
| IV | 340,593 | 95 | 1,653 | 610 | 13,978 | 16,336 | 4.1 | 4.8 |
| V | 475,823 | 466 | 2,698 | 1,086 | 23,274 | 27,524 | 4.9 | 5.8 |
| Av. per Co. | 247,439 | 260 | 1,549 | 666 | 12,648 | 15,123 | 5.1 | 6.1 |
| Av. per Plant | 195,348 | 206 | 1,223 | 525 | 9,985 | 11,939 | 5.1 | 6.1 |

Table IX.

Percentage which each Expense Item is of Total Expense.
Data for 1936-37 is from 52 Companies

| Item | 1936-7 | 1935-6 | Av. 3 yrs.* | Item | 1936-7 | 1935-6 | Av. 3 yrs. * |
|---|---|---|---|---|---|---|---|
| Labor | 50.7 | 48.1 | 49.8 | Truck | 5.9 | 4.3 | 2.8 |
| Power | 8.6 | 8.4 | 8.8 | Off. Supplies | 1.9 | 1.7 | 2.4 |
| Insurance | 4.7 | 4.5 | 4.9 | Rent | 0.6 | 0.5 | |
| Taxes | 3.2 | 4.4 | 4.7 | Interest | 1.5 | 2.5 | 4.8 |
| Supp. & Rep. | 5.6 | 5.0 | 3.8 | Depreciation | 9.5 | 10.5 | 11.2 |
| Advertising | 1.4 | 1.0 | 1.1 | Bad Debts | 3.1 | 4.4 | 2.8 |
| Post. & Tel. | 1.0 | 0.9 | 1.0 | Miscellaneous | 1.3 | 2.5 | 1.7 |
| Aud. & Legal | 1.0 | 1.3 | 0.4 | | | | |

* The years 1929-30, 1930-31, 1931-32.

An examination of Table IX calls out the following comments:

1. In the depression years every company tried to cut expense. Many items like depreciation, power, insurance, were not within easy control. Wages constitute the expense easiest to attack and large cuts were made at this point. With the coming of more prosperous times, wage scales are coming back to normal. Several companies pay the manager and sometimes other employes a wage plus a bonus based on the amount of net gain, and the huge gains of 1936 made a sizable addition to salary in such cases. Thus we find the 49.8¢ share which wages were of the expense dollar about 1930 cut to 45.4¢ and then coming back in 1935 to 48.1¢ and this year to 50.2¢.

2. As to taxes, reduced appraisals and lowered rates due to legal and other changes about 1932 materially lowered real estate taxes; larger gains and heavier taxes on gains increased materially the Federal tax charge, but many companies, by making themselves thoroly cooperative and distributing a large part of their earnings back to patrons in a readjustment of price, are escaping much or all of this tax. At that, there is some doubt whether the sample we happen to have does not reduce that figure too greatly from last year.

3. The interest charge is steadily declining, mostly from payment of debt, and to some extent thru refinancing at lower rates of interest.

4. The years immediately following 1932 found most of the companies using a generous part of the operating profits to write off bad accounts; returning farm income is resulting in payment of more of those old accounts, and reserves made each year are declining.

5. New tax legislation, reorganizations to meet cooperative requirements, and the increasing desire of directors and stockholders to know more about their businesses, are all factors in the much larger share of expense going to "audit and legal" charges in recent years.

6. More companies are putting on trucks to haul in grain and to deliver merchandise, and many companies are increasing the number of trucks to 2, 3 or 4. The farmers desire this service, but probably do not often realize the added expense it makes for the company.

7. A large number of companies are using the increased prosperity as a means of improving plants and equipment - part of which occasions the jump in the Supplies and Repair bill.

8. Last year we said: "Several companies have their plants written down to 'rock bottom values' and cannot write off much more - which fact may partly account for the drop in Depreciation charges. It will take more than one year's figures to tell the story." This year's figure seems to add further evidence.

Some reader may wonder how large volume and small volume companies compare in distribution of expense. Two years ago we selected a group of 12 small volume companies to compare with 12 large volume companies as to distribution of expense. The differences in ratios were small and were about what one would expect. E.g., the smaller companies have not been able to pay off debts so fast as the larger, so have a relatively larger interest bill. Insurance expense is higher relatively, because of larger plant investment and inventory in proportion to sales.

## Chapter IV

## The Financial Resources and Liabilities of Farmers' Elevators of Ohio

And now, what is the financial status of the farmer elevators of the state.

"The best it has been at any date for which we have figures", we have said each of the past two years, and the figures for 1936-37 for total assets, net worth, cash on hand, reduced indebtedness, or value per share of stock in each case indicate an improvement over a year before.

Mr. Foster found * that in 1924-25 the elevators handling grain principally had as a group no surplus, while those handling merchandise principally had about $1560 surplus on the average. By 1928-29 many of the deficits had been wiped out and many companies had sizable surpluses and the average book value per share of the whole group in that study (119 companies) was above $130 per share. It is fair to recognize that both plants and accounts receivable were being carried at too high figures at that time, a fault that has been corrected by most companies, and in a few cases more than corrected. Thus the figures in Table X below are on a much more conservative basis than were those in either the 1924-25 or the 1928-29 data.

Table X

Surplus and Deficit Status of Ohio Farmer Elevators, 1936-37

| Group | No. with Surplus | | No. with Deficit | | Net | Av. Per | Value per |
|---|---|---|---|---|---|---|---|
| | No. | Amount | No. | Amount | Surplus | Company | $100 share |
| I | 11 | $ 56,890 | 3 | $15,989 | $ 40,901 | $ 2,921 | $122.46 |
| II | 29 | 287,590 | 3 | 19,107 | 268,483 | 8,390 | 138.54 |
| III | 38 | 654,209 | 2 | 4,101 | 650,108 | 16,253 | 167.23 |
| IV | 35 | 861,704 | 1 | 14,452 | 847,252 | 23,535 | 187.27 |
| V | 25 | 790,279 | 3 | 43,077 | 747,202 | 26,686 | 164.77 |
| Total | 138 | 2,650,672 | 12 | 96,726 | 2,553,946 | 17,026 | 164.33 |

In comparing this table with the corresponding data of a year earlier we find that eleven more companies have surpluses than did then; 138, or 92% of the companies have surpluses averaging $17,670 each, while 12 companies have deficits averaging $8060 each. However, the reduction of total deficits from $267,600 to $96,700 is not quite what it seems. Three companies wisely wiped out sizable deficits by readjusting the stated values of their stock, and another deficit of $16,000 disappeared from our figures thru sale of the company. Total net surpluses have grown from $1,877,541 at the end of 1935-36 to $2,553,945 at end of 1936-37, an increase of $678,000.

* Bulletin 416, Ohio Agricultural Experiment Station - "Economic Aspects of Ohio Farmer Elevators."

The total stock outstanding is $3,970,055. The stock has been issued in par value of various amounts, $100, $50, $25, $10. On the basis of $100 shares the net worth of $6,524,001 gives the stock an average book value of $164.33, or $1.64 for every dollar of stock outstanding.

What are the total resources of the farmer owned elevators of Ohio?

The 150 companies in our figures had at the end of 1936-37 total resources of $8,011,824. Remembering that some 20 companies, including several fairly large companies such as Avery, Bellevue, Elmore, and Okolona, are not included in our figures, it would overestimate the facts little if any to say that the total resources thus owned are $8,500,000 to $9,000,000.

How do resources now compare with those of a year earlier?

We present in Table XI below the comparative figures for the two years for both resources and liabilities.

Table XI

Resources and Liabilities of 150* Farmer Owned Elevators of Ohio for the two years 1935-36 and 1936-37

| | Resources | | | Liabilities | |
|---|---|---|---|---|---|
| | 1935-36 | 1936-37 | | 1935-36 | 1936-37 |
| Cash and Bank | $ 940,011 | $1,097,987 | Notes Payable | $ 644,359 | $ 662,452 |
| Receivables | 1,544,895 | 1,560,482 | Dividends Payable | 188,278 | 279,722 |
| Inventory | 1,606,576 | 2,095,187 | Other Payables | 401,428 | 545,649 |
| Net Plant | 2,836,948 | 3,045,550 | Capital Stock | 4,036,180 | 3,970,055 |
| Investments | 107,227 | 144,746 | Surplus | 1,877,542 | 2,553,946 |
| Other Assets | 112,130 | 61,872 | | | |
| | 7,147,787 | 8,011,824 | | 7,147,787 | 8,011,824 |

In this and other tables Cash includes till money, bank balance, and savings accounts. The total is $1000 per company above a year ago, and more than $2000 above that of two years ago.

"Receivables" includes customer and grain accounts receivable and notes receivable, less reserves for incollectible items. "Inventory" includes grain on hand awaiting shipment, grain in transit to buyers, and grain and merchandise on hand for sale locally, all estimated at cost or market, whichever was lower.

* There are in the two groups 147 identical companies; the three new ones brought in resources of $130,282, while the three which dropped out took out $71,586 of the resources of a year ago. Strict accuracy would say that the 147 identical companies advanced from $7,076,201 to $7,882,542

"Plant Value" is book value of the plant equipment and trucks, less the reserve set up for depreciation. This seldom increases by more than 5% in a year; the larger increase this year - 10% - is due to the unusually large gains of the year which encouraged boards to make extensive additions and improvements.

"Investments" includes mainly U. S. Bonds, stock held in central sales organizations and shares taken to assist in reorganizing local banks. "Other Assets" includes prepaid expense, sales tax stamps on hand, and deposits in closed banks at what the company expects to realize from them.

It must be emphasized that "Dividends Payable" nowhere nearly represents total dividends paid. Most companies ending the fiscal year at any date before March 1 had declared and paid the dividend on the stock; many boards had not declared dividends, especially patronage dividends, at the time of the audit. Our item "Dividends Payable" represents merely the dividends already declared but unpaid.

In the above comparison we find every one of the four major assets has increased materially except receivables, and probably nobody will find any cause for alarm in the slow growth of this particular item. Payables have also increased; one can compare the $18,000 increase in Notes Payable with the $200,000 increase in plant facilities, and the $145,000 increase in other payables with the $489,000 increase in inventory.

How do the various groups compare in the distribution of these resources and liabilities?

Table XII gives the detailed data as to resources.

Table XII

Resources of Ohio Farmer Owned Elevators, 1936-37
in Averages per Company in each Group

| Group | Cash | Net Receivables | Inventory | Plant Value | Investments | Other Assets | Total Assets |
|---|---|---|---|---|---|---|---|
| I | $ 1,862 | $ 5,317 | $ 5,638 | $ 8,830 | $ 79 | $158 | $21,884 |
| II | 4,923 | 6,960 | 8,656 | 14,348 | 660 | 262 | 35,809 |
| III | 4,191 | 10,777 | 13,671 | 19,712 | 1,006 | 391 | 49,748 |
| IV | 12,934 | 9,682 | 12,741 | 20,318 | 1,166 | 639 | 57,480 |
| V | 10,041 | 17,490 | 26,205 | 33,674 | 1,439 | 451 | 89,300 |
| Average | 7,320 | 10,443 | 13,967 | 20,304 | 965 | 413 | 53,412 |

We note that the smaller companies have a smaller percentage - 9% - of their total assets in cash as against 14% for the whole group and 22% for Group IV. The smaller companies have relatively much more tied up in receivables, and slightly more in plant.

When compared with sales, the turnover is as follows:

| Group | Sales | Yearly Turnover of Various Items: Inventory | Receivables | Total Assets |
|---|---|---|---|---|
| I | $ 53,928 | 9.6 | 10.1 | 2.5 |
| II | 109,875 | 12.7 | 15.8 | 3.1 |
| III | 181,012 | 20.9 | 16.8 | 3.6 |
| IV | 340,593 | 27.1 | 35.7 | 5.9 |
| V | 475,823 | 18.1 | 27.2 | 5.3 |
| Average | 247,439 | 17.7 | 23.7 | 4.6 |

The distribution of Liabilities is shown for each group in Table XIII.

Table XIII

Liabilities of Ohio Farmer Owned Elevators, 1936-37
in Averages per Company for each Group

| Group | Notes Payable | Dividends Payable | Other Payables | Inc. Tax Reserve | Net Worth | Total Liabilities |
|---|---|---|---|---|---|---|
| I | $4,145 | $ 0 | $1,800 | $ 13 | $15,926 | $21,884 |
| II | 3,826 | 194 | 1,479 | 153 | 30,157 | 35,809 |
| III | 4,734 | 1,031 | 3,416 | 140 | 40,427 | 49,748 |
| IV | 1,459 | 1,838 | 3,131 | 549 | 50,503 | 57,480 |
| V | 8,577 | 5,932 | 5,581 | 1,323 | 67,887 | 89,300 |
| Average | 4,416 | 1,865 | 3,188 | 450 | 43,493 | 53,412 |

The smaller companies have had much smaller earnings relatively than the larger and it has taken them longer to pay off early debts, so we find Notes Payable constituting 19% of total assets, as against 8% for the whole group, and Other Payables 9% as against 6%.

As a final picture we present in Table XIV the averages of the various items of resources and liabilities per company set up in form of a balance sheet.

Table XIV

Resources and Liabilities per Company
Average of 150 Farmer Owned Elevator Companies 1936-37

| | | | | |
|---|---|---|---|---|
| Cash and Bank | $ 7,320 | Notes Payable | | $ 4,416 |
| Receivables | 10,443 | Dividends Payable | | 1,865 |
| Inventory | 13,967 | Other Payables | | 3,188 |
| Net Plant | 20,304 | Income Tax Reserve | | 450 |
| Investments | 965 | Capital Stock | $26,467 | |
| Other Assets | 413 | Surplus | 17,026 | 43,493 |
| Total Assets | 53,412 | Total Liabilities | | 53,412 |

The collection of one-third of the receivables plus the sale for cash of one-third the inventory on hand would pay all the notes and accounts payable and the Federal taxes due. This would leave the company owning plant values of $20,300, inventory and receivables of $16,000, $7300 in cash, and $1300 of miscellaneous assets, and all free of debt.

# Chapter V

## Miscellaneous

Just where were the larger gains of this past year made as compared with the year before?

The volume of business, larger by 40% than the year before, tho handled on a slightly lower trading margin, brought in $908,300 more trading income; grinding was $72,550 higher, and miscellaneous income $22,050 higher, making a total increased income of $1,003,500.

In depreciation $27,570 more was added to reserves, in bad debts $10,420 more, operating expense was $311,400 more. The interest bill was $6,400 less. Thus total expense was $343,000 greater than last year. This deducted from the $1,003,500 leaves $660,500 of increased net gain for 1936-37 as compared with 1935-36.

### The Notes Payable Record down to date.

The old debts of the early 20's are pretty well paid off. The 75 companies whose record we have for 1924 owed then in notes payable $980,000 and now $315,000. Much has been paid since the depression began; 63 companies whose data for 1928-29 are available reduced permanent debt from $510,000 at that time to $270,000 at the end of this past year.

At first blush the record of this past year does not look so good; 141 companies increased notes payable from $560,000 to $574,000. But, one company whose debt is $10,000 higher, built an addition and put in a stock of hardware; $14,000 in another case was due to a building purchased and stock of hardware; $19,000 bought an added plant and a lumber yard; $4,500 was the cost of an added plant in another case; another company with no debt before now owes $7,000 for a complete filling station, - and these are merely illustrations of the general truth that the general reductions in notes payable go on in face of thousands of dollars added yearly in improved building and equipment, and new lines of goods.

### The Receivables Record

For two years past we have said: "For several years prior to 1930-31, receivables increased at about 10% per year. That year the increase was cut to 3%, and following that a reduction was under way. Managers tell us that the current accounts make little trouble; it is the old accounts which cause the difficulty. Much of the reduction secured was due to write off of old accounts."

With the increase of money in farmers' hands and the advanced prices which promise both to the farmer and to the seller a greater probability of payment, there would be a temptation to allow receivables again to climb. What is the situation?

Of the 145 companies on which we have this data, 23 had seen less than $500 change in receivables, 65 had let them increase more than $500, and 57 had experienced a decrease of more than $500. The totals advanced from $1,715,000 to $1,743,000, an increase of 1½% accompanying an increase in volume of about 40%. (The $11,550 per company which this indicates is reduced by reserves for bad debts to the $10,443 which appears in Table XIV.)

The trend of month end balances is shown in Table XV below. We no longer get records from two of the 17 companies in the data for 1928-29 and 1933-34; we have added 5 more companies, so that the last two columns represent 20 companies.

Table XV

Trend of Month End Balances of Accounts Receivable

| | 1929 | 1933 | 1935 | 1936 |
|---|---|---|---|---|
| Jan. | $12,309 | $11,676 | $10,771 | $10,541 |
| Feb. | 12,092 | 11,947 | 10,488 | 10,968 |
| Mar. | 13,971 | 12,276 | 11,902 | 11,737 |
| Apr. | 14,908 | 12,223 | 12,246 | 13,064 |
| May | 15,704 | 12,435 | 12,145 | 13,491 |
| June | 15,476 | 12,610 | 12,387 | 12,656 |
| July | 15,493 | 12,018 | 12,176 | 10,849 |
| Aug. | 14,825 | 12,374 | 11,334 | 11,348 |
| Sept. | 16,742 | 12,732 | 12,133 | 13,301 |
| Oct. | 15,919 | 12,897 | 12,718 | 13,760 |
| Nov. | 15,429 | 12,612 | 11,691 | 12,845 |
| Dec. | 13,965 | 11,783 | 10,636 | 10,929 |

We note a rise each spring; a decline in July and August when wheat is sold; the high peak for the year with the fall sale of fertilizer in September or October and then a decline to December and January. The year 1936 ended with total accounts per company only $158 higher than in January, 1935, and that in spite of 40% increase in volume of business in 1936 over 1935.

Why the large surpluses?

The net surplus per company averages above $17,000 for the 150 companies. An examination of the detailed data shows 47 companies with surpluses of $15,000 to $40,000, 8 with more than $40,000 surplus, 4 more above $50,000, 2 more in excess of $60,000 and one of $113,000. Why such surpluses?

The essential reason for large surpluses is the fact that nearly every company started out undercapitalized, and seriously so. E.g., companies with 14, 26, 32 and 71 thousand dollars of capital stock have total assets of 31, 37, 50 and 113 thousand respectively. These respective amounts of total assets have been found necessary if the various companies were to serve and continue to serve their communities adequately. Until earnings have been applied to payment for these assets, debt exists to the extent that assets exceed the amount of capital stock; as the debt is paid, this excess of net assets over capital stock is surplus.

The need of a strong cash position adds further to surplus.

But why carry so much cash?

The reader may remember that these companies had a total of $1,097,000 in cash and bank account, an average of $7300 per company. Averages do not bring out the full facts. An examination of the tables reveals 9 companies with cash on hand between 10 and 15 thousand, 12 of 15 to 20 thousand, 8 of 20 to 25 thousand, and three of 25 to 50 thousand. Why?

First, one must recognize that the cash on hand at the time of the audit will exceed the normal average; managements are getting ready to pay stock and patronage dividends, and in many companies this cash balance will be cut down materially in the next month in paying these dividends.

Second, experience has shown the wisdom and value of a sizable cash balance as a factor in credit rating and in securing discounts or better price.

Third, stockholders do not always realize that for a company doing a $200,000 business, a $5000 cash balance will buy the goods and pay the expense of not much more than a week's business.

Fourth, one can agree that the $7300 average when depleted by payment of $1500 to $3000 of dividends, will be no more than it is wise to carry normally; he can recognize too when prices of farm products and supplies have been low, that as they advance he will need extra cash to carry the same inventory at advancing prices. Still one wonders whether the huge cash balances equal to 4 to 8 weeks sales are necessary or even wise.

Shall a company operate more than one plant?

The answer depends of course on the particular situation - distribution of patrons, railway or trucks available, opportunities to purchase to advantage, financial situation of the company.

Buying in larger units often secures better prices; more frequent buying means fresher goods; several plants under one management can operate on lower total inventory.

As to expense, we have in two different years selected a group of companies operating one plant and with same average volume per plant as that of the companies operating two or more plants each; in both cases we found a lower expense ratio for the companies operating several plants.

This year a coincidence in averages furnishes us the most complete evidence we have had. The average volume per plant for the entire 28 companies operating more than one plant each differs from the average volume per plant of the 122 one plant companies by less than $1000. The expense per dollar of sales is as follows:

| | Operating Expense | Total Expense |
|---|---|---|
| Companies operating one plant each | 5.2¢ | 6.3¢ |
| Companies operating two or more plants each | 4.9¢ | 5.8¢ |